116

CANADIAN MARCONI COMPANY

68th Annual Report 1970

DIRECTORS

C.E. Belanger, C.A.
Senior Partner
Belanger, Saint-Jacques, Sirois, Comtois & Cie
Sherbrooke, Canada

*J.A. Boyd
Financial Consultant
Toronto, Canada

L.M. Daley
President and Chief Executive Officer
Canadian Marconi Company
Montreal, Canada

S. Dobb, F.C.A.
Assistant Managing Director
GEC-Marconi Electronics Limited
London, England

S.M. Finlayson
Chairman
Canadian Marconi Company
Montreal, Canada

H. Hansard, Q.C.
Senior Partner
Ogilvy, Cope, Porteous, Hansard,
Marler, Montgomery & Renault
Montreal, Canada

E.O. Herzfeld
Vice-Chairman, Canadian Marconi Company
Director of Contracts
The General Electric Company Limited
London, England

*The Hon. A. K-Hugessen, Q.C.
Counsel
Laing, Weldon, Courtois, Clarkson,
Parsons, Gonthier & Tetrault
Montreal, Canada

H.J. Lang
Chairman and President
Canron Limited
Montreal, Canada

J.G. Notman, O.B.E.
Director
Canadair Limited
Montreal, Canada

J.E. Pateman, C.B.E., M.I.E.E.
Managing Director
Marconi-Elliott Avionic Systems Limited
London, England

I.D. Sinclair, Q.C.
President and Chief Executive Officer
Canadian Pacific Railway Company
Montreal, Canada

R. Telford, C.B.E.
Managing Director
GEC-Marconi Electronics Limited
London, England

*resigned December 31, 1970

OFFICERS

S.M. Finlayson
Chairman

E.O. Herzfeld
Vice-Chairman

L.M. Daley
President and Chief Executive Officer

W. Baillie
Vice President, Products and Markets

R.R. Lanthier
Vice President, Finance and Treasurer

E.D. Hickin
Assistant Treasurer

E.J. Lang
Comptroller

J.A. Howlett
Vice President, Organization and Personnel

C.W. Perry
Vice President, Corporate Affairs and Secretary

J.O. Paquette
Assistant Secretary

H.A. Hamilton, Ph.D.
Vice President, Engineering and Technology

J.W. Dodds, Ph.D.
Vice President, Telecommunications Division

K.C.M. Glegg
Vice President, Avionics Division

R. MacLeod
Vice President, Special Services Division

D.W.G. Martz
Vice President, Broadcasting Division

F.R. Reeves
Vice President, Specialized Components Division

REGISTRAR

Montreal Trust Company
Montreal, Canada

TRANSFER AGENT

Canada Permanent Trust Company
600 Dorchester Blvd. West, Montreal, Canada

AUDITORS

Price Waterhouse & Co.
Montreal, Canada

BANKERS

Royal Bank of Canada
First National City Bank

FINANCIAL HIGHLIGHTS

	1970	1969	1968	1967	1966
Sales and revenues	**$72,577,000**	$82,055,000	$69,911,000	$66,138,000	$60,097,000
Income from operations	**11,494,000**	8,446,000	2,019,000	8,542,000	10,840,000
Depreciation and amortization	**2,001,000**	2,191,000	2,145,000	2,540,000	2,483,000
Net income:					
from operations before exchange loss	**1,791,000**	—	—	—	—
from operations	**926,000**	841,000	(4,299,000)	26,000	1,631,000
including special receipt	**4,926,000**	—	—	—	—
Number of shares issued	**5,943,192**	5,943,192	5,943,192	5,943,192	5,402,902
Net income per share:					
from operations before exchange loss	**.30**	—	—	—	—
from operations	**.155**	.14	—	—	.30
including special receipt	**.83**	—	—	—	—
Dividends	**—**	—	297,000	594,000	540,000
Dividends per share	**—**	—	.05	.10	.10
Shareholders' equity	**20,668,000**	15,742,000	14,900,000	18,818,000	17,406,000
Shareholders' equity per share	**3.48**	2.65	2.50	3.17	3.22
Working capital	**15,768,000**	10,463,000	8,227,000	13,112,000	8,808,000

TABLE OF CONTENTS

Pour obtenir un exemplaire en français de notre rapport annuel, veuillez écrire au secrétaire, Canadian Marconi Company, 2442, avenue Trenton, Montréal 301, Québec, Canada.

DIRECTORS' REPORT TO SHAREHOLDERS

RESULTS FOR 1970

Despite a sales decline of 11.5% from the peak of 1969 to a figure of $72,577,000, income from operations increased in 1970 by over $3 million to $11,494,000, an improvement of 36%. Notwithstanding an extraordinary exchange loss, resulting from the unpegging of our currency, which was equal to over 14¢ per share, net operating profit at 15.5¢ per share was in excess of last year's figure of 14¢. In addition we had an extraordinary receipt equivalent to 67¢ per share. Shareholders' equity increased by over 30% to an historical peak of over $20 million or $3.48 per share and working capital increased by 50% to over $15 million.

The reorganization of the Company's management structure, the improvements made in operating efficiency and the financial control procedures initiated in 1969, which were further extended and improved in 1970, were instrumental in extending your Company's recovery in spite of the severe economic conditions experienced. During the year certain operations were moved from outlying facilities to our main plant, changes designed to effect economies and to facilitate control.

The general cutback in the aerospace industry and the policy of governments to curtail expenditures on military programs, together with the decision by the Canadian Government in June to let the Canadian dollar float upwards in world money markets, had a severe impact on our earnings. Over 60% of the Company's revenues are derived from outside Canada and the contracts, which normally run for extended periods, generally provide for payment in U.S. funds. Contracts consummated prior to June had been negotiated at the pegged rate and over $40 million of your Company's then current and future receivables were affected. The net effect of this government action has resulted in a reduction of profit before income taxes of $1,800,000 in the year which has been shown in the Statement of Income as an extraordinary item. In addition, the freeing of the dollar will continue to have a negative impact on our competitiveness in export trade.

The reduction of spending by governments has resulted in cancellations of programs which were both in production and under follow-on option. Your Company has submitted cancellation claims to the various purchasers involved; however, early settlement should not be anticipated and it is conceivable that litigation may be necessary on some of them. We have only included

in the accounts for 1970 the costs incurred to date of cancellation. Allowable mark-ups, costs due to change notices received, and other additions to the claims submitted have not been written into the accounts.

BROADCASTING

On February 19, 1971 it was announced that Bushnell Communications Limited was unable to complete the agreement to purchase our Broadcasting Division and we therefore will continue to operate our stations, namely CFCF-TV, CFCF-Radio, CFQR and CFCX shortwave, as heretofore. During 1971 a reassessment of our position on broadcasting will be made and alternative ways of complying with the current Order-In-Council on Broadcasting Ownership will be considered. As already reported, the deposit of $4 million we received under the contract was retained by us and included in the Statement of Income as an extraordinary receipt.

CHANGE OF YEAR END

During the year The General Electric Company Limited of the United Kingdom decided to consolidate our accounts with theirs; consequently, we have made application to, and have been granted permission by, the Canadian authorities to change our year end to March 31 to coincide with that of G.E.C. The management of your Company proposes to present to the shareholders, at an annual meeting to be held the latter part of June, annual reports for the year ended December 31, 1970 and for the fiscal period of three months ending March 31, 1971. An information circular and proxy form for use at the meeting will be sent to the shareholders during the latter part of May, together with the report for the period ended March 31, 1971.

GROUP COLLABORATION

The co-operation between the G.E.C. group of companies and Canadian Marconi Company is increasing in scope and it is anticipated that such collaboration will be of significant benefit to your Company in the future, both as a marketing outlet for our products and as a source for the acquisition of products for us to sell and/or to manufacture particularly for the North American market. During the year the Company was successful in augmenting its product line by various sales, marketing and/or manufacturing license arrangements with various members of the G.E.C. Group, covering such products as low light level television, air traffic control radar, and mail-sorting equipments. These initial product acquisitions by your Company from the Group are the first of what we believe to be many opportunities of product support that we can anticipate from G.E.C. whose annual volume is in excess of $2 billion. In this connection, we are pleased to report that recently G.E.C. increased its holding in your Company to 51.7% by acquiring a further 57,000 shares.

In appropriate cases, we look for new products outside the Group. A marketing agreement was thus made with Electronique Marcel Dassault of France which will lead to a manufacturing arrangement if we are successful in penetrating the terrain avoidance radar market in North America. At the present time, flight trials are underway by the U.S. Navy for this equipment.

NEW PRODUCT DEVELOPMENT

Your Company is continually assessing its research and development expenditures to ensure that maximum value is obtained from each R & D dollar. Expenditures are only made against specific targets and are monitored against previously established milestones, and full advantage is taken of all government assistance programs. On products obtained from the G.E.C. Group, engineering expenditures are made only to the extent of adapting them to the North American market.

In 1970 the design of low-cost and light-weight stationary antenna dopplers for fixed-wing and rotary-wing aircraft was completed. Further design work has been proceeding well in such areas as Omega navigation systems, weight and balance indicators, altimetry, area navigation systems and digital indicators.

Initial commercial marketing activity indicates the market demand for our newly developed MCS-6900 pulse code modulation radio relay system will exceed our earlier expectations. Production will commence in early autumn, 1971. The equipment stimulated much comment at its Canadian debut at the Canadian Symposium of Communications in November where it won the IEEE award for the best product designed in Canada. The completion of the initial stages of the multi-year development program in the early part of the year formed a firm basis for the evolution of a completely integrated communications system.

The continued success of the AN/GRC-103 military radio relay set resulted in further domestic and overseas sales. December marked the first quantity deliveries to the U.S. Government of newly developed versions of this equipment.

FACILITIES

Despite the need to curtail any but essential additions to the plant, it has been possible to improve our facilities by the completion of a Standards Laboratory. Our Specialized Components Division has installed modern and sophisticated equipment both in the Printed Circuits Department, which has gained important export orders for multi-layer boards, and in the Investment Casting Foundry.

During the latter half of the year, the organization of Kaar Electronics Corporation was further streamlined. General management, sales management, all production facilities, financial and administrative control were centralized at our head office in Montreal. Operations in 1970 again showed a loss which included substantial inventory write-offs; however, it was materially less than in 1969 and present indications are that a modest profit will be earned in 1971.

DIRECTORS AND OFFICERS

On December 31, 1970 Mr. J.A. Boyd, Vice Chairman, and The Honourable A. K-Hugessen, having been directors of your Company for many years, submitted their resignations. The directors wish to record their deep appreciation of the outstanding service both these men have rendered to your Company. On February 11, 1971 Mr. E.O. Herzfeld was appointed Vice Chairman. On the same day, Mr. S. Dobb, Assistant Managing Director of GEC-Marconi Electronics Limited, and Mr. J.E. Pateman, Managing Director of Marconi-Elliott Avionic Systems Limited, were appointed directors, thus creating additional close links with the G.E.C. Group.

In October Mr. H.A. Hamilton, Ph.D., formerly Vice President of Marine and Land Communications Division, was appointed Vice President, Engineering and Technology, a newly created position to co-ordinate all technical aspects in your Company. Mr. Nelson E. Thomas assumed the responsibility for Marine and Land Communications Division and Kaar Electronics Corporation as Divisional Manager during October.

Mr. Edward J. Lang was promoted to become Comptroller and an officer of the Company in April.

OUTLOOK

It is not expected that the economic downturn which has been experienced in North America and other world markets will be ameliorated in time to be of significant benefit to us in 1971. It will be a continuous struggle to improve profit margins and we are reluctant, under these unsettled conditions, to make any prognostication of future earnings. One disturbing feature of the unsettled market conditions and the cancellations and deferments of some programs is the effect it has had on our order backlog which, at the year end, stood at slightly over $20 million. Nevertheless, all things considered, we do view the future with confidence.

DIVIDEND

In view of the level of the Company's bank indebtedness and to conserve cash, your directors decided that dividend payments should not be resumed at this time.

TRIBUTE TO STAFF

The year 1970 was a most difficult one and necessitated sacrifice and extraordinary effort by our staff; to our employees who responded when the occasion demanded, the directors wish to record their sincere appreciation.

On behalf of the Board,

L.M. Daley
President and
Chief Executive Officer

S.M. Finlayson
Chairman

February 11, 1971
Canadian Marconi Company
Montreal, Quebec

OPERATING DIVISIONS

AVIONICS DIVISION

Engineering, manufacturing and marketing of airborne Doppler sensors, navigation and tactical computers, indicators and altimeters.

BROADCASTING DIVISION

Operation of TV station CFCF-TV, radio stations CFCF-AM, CFQR-FM and CFCX-SW in Montreal. Production of programs and commercials.

MARINE AND LAND COMMUNICATIONS DIVISION

Engineering, manufacturing and/or marketing of mobile two-way radio and associated base station equipment; hand-held portables and pocket paging units; broadcast and television station equipment; industrial and education closed-circuit television; electronic test instruments; marine radar; loran; depth sounders and fish finders; HF-AM and VHF-FM marine radio telephones; single sideband radios; systems planning, construction, installation and maintenance.

SPECIAL SERVICES DIVISION

Installation of radar, communications and air navigation equipment and systems, and operation of defense communications and detection systems. Repair and overhaul shops for radar, sonar, communications, diesel electric generating equipment, and an approved test equipment repair and calibration laboratory.

SPECIALIZED COMPONENTS DIVISION

Manufacturing and marketing of printed circuit boards and precision investment castings.

TELECOMMUNICATIONS DIVISION

Engineering, manufacturing and marketing of commercial and military land-based microwave communications equipment and associated supporting test equipment.

CONSOLIDATED BALANCE SHEET
CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

	December 31,	
ASSETS	**1970**	1969
	(in thousands)	
Current assets:		
Cash	**$ 237**	$ 254
Accounts receivable (Note 3)	**24,811**	18,139
Inventories (Note 3)	**10,694**	12,006
Prepaid expenses	**1,332**	1,502
	37,074	31,901
Sundry assets:		
Deferred accounts receivable	**239**	244
Investments in and advances to associated companies, at cost less amounts written off	**83**	204
	322	448
Fixed assets:		
Land, buildings and equipment, at cost	**29,502**	28,872
Less: Accumulated depreciation	**15,880**	14,657
	13,622	14,215
	$51,018	$46,564

Approved on behalf of the Board:

L.M. Daley, Director

S.M. Finlayson, Director

AUDITORS' REPORT

To the Shareholders of
Canadian Marconi Company:

We have examined the consolidated balance sheet of Canadian Marconi Company and subsidiary companies as at December 31, 1970 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants

Montreal, February 22, 1971

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1970	December 31, 1969
	(in thousands)	
Current liabilities:		
Bank loans (secured — Note 4)	**$ 9,516**	$ 9,244
Accounts payable and accrued liabilities	**9,114**	9,338
Accrued income taxes (Note 6)	**2,563**	790
Sales and excise taxes payable	**113**	66
Advance payment under agreement for sale of Broadcasting Division	**—**	2,000
	21,306	21,438
Deferred income taxes (Note 6)	**390**	400
Long-term debt (Note 7):		
5-¾% unsecured sinking fund debentures, series A, due May 1, 1988	**5,399**	5,600
7% unsecured sinking fund debentures, series B, due June 1, 1989	**3,255**	3,384
	8,654	8,984
Shareholders' equity:		
Capital stock —		
Authorized		
7,500,000 shares of $1 each		
Issued		
5,943,192 shares	**5,943**	5,943
Contributed surplus	**4,273**	4,273
Retained earnings (Note 8)	**10,452**	5,526
	20,668	15,742
Contingent liability:		
Accounts receivable under leases discounted — $3,326,000		
	$51,018	$46,564

CONSOLIDATED STATEMENT OF INCOME

	Year ended December 31, 1970	1969
	(in thousands)	
Sales and revenues	**$72,577**	$82,055
Income from operations before the charges shown below (Notes 3 and 10)	**$11,494**	$ 8,446
Research and development (net of recoveries)	**2,915**	2,317
Depreciation	**2,001**	2,191
Interest (Note 9)	**1,519**	1,907
	6,435	6,415
Income before income taxes and extraordinary items	**5,059**	2,031
Provision for income taxes (Note 6)		
Current	**2,738**	420
Deferred	**530**	770
	3,268	1,190
Net income before extraordinary items	**1,791**	841
Extraordinary items:		
Loss on exchange due to freeing of the Canadian dollar (net of income taxes, $937 – Note 2)	**(865)**	–
Non-refundable deposit relating to sale of Broadcasting Division (Note 5)	**4,000**	–
Net income	**$ 4,926**	$ 841
Earnings per share:		
Net income before extraordinary items	**$.30**	$.14
Net income	**.83**	.14

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year ended December 31, 1970	1969
	(in thousands)	
Retained earnings, beginning of year	**$ 5,526**	$ 4,685
Add: Net income	**4,926**	841
Retained earnings, end of year (Note 8)	**$10,452**	$5,526

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year ended December 31,	
	1970	1969
	(in thousands)	
Source of funds:		
Operations —		
Net income	**$4,926**	$ 841
Add:		
Depreciation	**2,001**	2,191
(Decrease) increase in deferred income taxes	**(10)**	400
	6,917	3,432
Decrease in sundry assets	**126**	67
	$7,043	$3,499
Application of funds:		
Additions to fixed assets (net)	**$1,408**	$1,105
Repayment of long-term debt	**330**	158
Increase in working capital	**5,305**	2,236
	$7,043	$3,499

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include the accounts of Canadian Marconi Company and its subsidiary companies, all of which are wholly owned. The only operating subsidiary is Kaar Electronics Corporation, which is engaged in the sale and leasing of marine and land communications equipment in the United States of America.

Note 2 — EXCHANGE: Current assets and liabilities in United States dollars have been translated into Canadian dollars at the rate of exchange in effect as at December 31, 1970. This rate has also been applied to the fixed assets of the United States subsidiary, which are not significant in amount. Amounts entering into results of operations have been translated at average rates.
Exchange losses, which have been charged against net income, include $1,802,000 resulting from the freeing of the Canadian dollar on May 31, 1970, which is shown as an extraordinary item.

Note 3 — INVENTORIES: Inventories may be summarized as follows:

	1970	1969
	(in thousands)	
Contracts and other work in progress, at cost, less provision for anticipated losses	**$ 2,745**	$ 4,710
Raw materials, at cost, not in excess of market	**1,187**	1,501
Finished products, at lower of cost or net realizable value	**6,762**	5,795
	$10,694	$12,006

Profits on major long-term contracts, principally those over $100,000, are recorded on a stage of completion basis, based on the ratio of incurred costs to date to the projected total costs of completing the contracts. Accrued profits are included in accounts receivable in the accompanying balance sheet. Full provision has been made for anticipated losses.

Note 4 — BANK LOANS: Bank loans are secured by assignment of receivables and inventories.

Note 5 — AGREEMENT FOR SALE OF BROADCASTING DIVISION: The agreement under which the Company proposed to sell its Broadcasting Division to Bushnell Communications Limited had not been consummated by the end of 1970 and, accordingly, the assets, liabilities and operating results of the Division for 1970 are included in the accompanying financial statements. On February 19, 1971 Bushnell announced that it was unable to complete the agreement. The advance payments made are not recoverable by Bushnell and are included in the consolidated statement of income as an extraordinary item.

Note 6 — INCOME TAXES: Consolidated income before income taxes and extraordinary items has been reduced by the loss of the Company's U.S. subsidiary, which cannot be deducted from the parent company's taxable income. The provision for income taxes is therefore based on the income of the parent company. Income taxes deferred at December 31, 1970 by reason of timing differences between accounting and taxable income amount to $1,456,000, of which $1,066,000 relates to short-term deferments and is included in current liabilities under the caption accrued income taxes in the accompanying balance sheet.

Note 7— LONG-TERM DEBT: Sinking fund provisions of the series A and B debentures require annual payments aggregating $208,000 in 1971, $237,000 in 1972, 1973 and 1974, and $316,000 in 1975. In 1970, debentures having a face value of $330,000 were purchased in full satisfaction of 1971 requirements and in partial satisfaction of 1972 requirements.

Note 8 — RESTRICTIONS UPON PAYMENT OF DIVIDENDS: The Trust Agreements relating to the series A and B debentures contain certain restrictions upon the payment of dividends. At December 31, 1970, consolidated retained earnings of approximately $7,538,000 were available for distribution.

Note 9 — INTEREST: Interest expense includes $549,000 (1969 — $567,000) on long-term debt.

Note 10 — DIRECTORS' AND OFFICERS' REMUNERATION: The remuneration of eight directors amounted to $11,300 (1969 — $15,952); remuneration of sixteen officers and one past officer amounted to $488,651 (1969 — $413,428). Three of the officers are also directors of the Company. None of the directors or officers has received remuneration from any of the Company's subsidiaries.

CANADIAN MARCONI COMPANY
68th ANNUAL REPORT 1970

CANADIAN MARCONI COMPANY

FIRST NAME IN RADIO-ELECTRONICS

Printed in Canada

CANADIAN MARCONI COMPANY

PRODUCTS AND SERVICES

Avionics Division

Engineering, manufacturing and marketing of airborne Doppler sensors, navigation and tactical computers and indicators and altimeters.

Broadcasting Division

Operates TV station CFCF-TV, radio stations CFCF-AM, CFQR-FM and CFCX-SW, in Montreal. Produces programs and commercials.

Marine and Land Communications Division

Engineering, manufacturing and/or marketing of mobile two-way radio and associated base station equipment; hand held portables and pocket paging units; broadcast and television station equipment; industrial and educational closed circuit television; electronic test instruments; marine radar; loran; depth sounders, fish finders and sonar; HF-AM and VHF-FM marine radio telephones; single sideband radio; systems planning, construction, installation and maintenance.

Special Services Division

Installation of radar, communications and air navigation equipment and systems, and operates defense communications and detection systems. Repair and overhaul shops for radar, sonar, communications, diesel electric generating equipment, and an approved test equipment repair and calibration laboratory.

Specialized Components Division

Manufacturing and marketing of printed circuit boards and precision investment castings.

Telecommunications Division

Engineering, manufacturing, and marketing of commercial and military land-based microwave communications equipment, and associated supporting test equipment.

CANADIAN MARCONI COMPANY

2442 TRENTON AVENUE, MONTREAL 301, P.Q.
and its wholly owned subsidiary KAAR ELECTRONICS CORPORATION

PRINTED IN CANADA

INTERIM REPORT

FIRST HALF 1970

Scb

CANADIAN MARCONI COMPANY

THE FIRST NAME IN RADIO-ELECTRONICS

70

CANADIAN MARCONI COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME

FOR THE SIX MONTHS ENDED JUNE 30 (Unaudited)

	($'000) 1970	($'000) 1969
SALES AND REVENUES	$39,064	$41,348
Income from Operations before undernoted items	$ 5,139	$ 4,037
Less: Research and development	1,636	1,436
Depreciation	972	1,033
Interest	810	977
Income before Income Taxes	$ 1,721	$ 591
Provision for income taxes	1,004	—
NET INCOME	$ 717	$ 591

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	1970	1969
SOURCE OF FUNDS:		
Operations —		
Net income	$ 717	$ 591
Depreciation	972	1,033
Decrease in sundry assets	8	293
	$ 1,697	$ 1,917
APPLICATION OF FUNDS:		
Additions to fixed assets (net)	$ 551	$ 574
Repayment of long-term debt	145	2
Increase in working capital	1,001	1,341
	$ 1,697	$ 1,917

NOTE:
As noted in the last annual report, the company revised its accounting treatment with respect to certain transactions. This change had no effect on net earnings. The 1969 figures included herein have been amended accordingly.

TO THE SHAREHOLDERS

Results during the first half of 1970 continue to show improvement. Despite a drop in sales volume of some 6%, our profit before taxes for the six months ended June 30, 1970 amounts to $1,721,000 as against $591,000 for the same period in 1969. After making full provision for taxes on 1970 income to date, our net profit is $717,000. No income tax was provided in the results to June 30, 1969.

The recent unpegging of the Canadian dollar has had a material effect on your Company's operations during the period, and the loss on exchange for the half-year, resulting mainly from our exports in U.S. currency, has been incorporated into the accounts.

The tightening up of U.S. military spending and cancellation of some contracts, together with the down-turn in the buoyancy of the Canadian economy, have resulted in a drop in your Company's backlog position of some 20% which at June 30 stood at a little over $30,000,000.

On July 6, 1970, the Canadian Radio-Television Commission announced that it had approved the transfer of our broadcasting licences to Bushnell Communications Limited. In accordance with our agreement with Bushnell the closing of the sale of our Broadcasting Division is scheduled to take place on or before September 30, 1970.

In all the circumstances the Directors decided not to take any action with regard to an interim dividend.

On behalf of the Board of Directors.

Chairman

Montreal, Quebec
August 5, 1970.